

Message Text

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ACTION EB-03

INFO OCT-01 EUR-08 ISO-00 SS-14 L-01 SP-02 PRS-01 INR-05

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R 281400Z MAR 75

FM AMEMBASSY BUDAPEST

TO SECSTATE WASHDC 2915

C O N F I D E N T I A L BUDAPEST 0892

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LIMDIS

E.O. 11652: GDS

TAGS: EFIN, HU

SUBJECT: GOH EXPRESSES INTEREST IN SETTLEMENT OF PRE-WW II
COMODITIES DEBT

REFERENCE: BUDAPEST 1820, JULY 11, 1974

1. AT RECEPTION MARCH 26 AKAR OF FINMIN APPROACHED
EMBASSY ECONOFF AND INFORMED HIM THAT DURING FORTHCOMING
VISIT TO U.S. FOR PURPOSE OF FINALIZING BONDS AGREEMENT
HE WOULD ALSO LIKE TO DISCUSS MATTER OF HUNGARIAN DEBT
ARISING FROM 1923 PURCHASE OF AGRICULTURAL COMMODITIES.
THE EXISTENCE OF THIS DEBT, WHICH WE UNDERSTAND CONSISTS
OF ABOUT \$1.5 MILLION IN PRINCIPAL AND \$2.5 MILLION IN
ACCRUED INTEREST, HAS RESULTED IN THE CONTINUED APPLICA-
TION OF THE JOHNSON ACT TO HUNGARY AND HAS PREVENTED
HUNGARY FROM OBTAINING DIRECT ACCESS TO U.S.MONEY MARKETS.

2. AKAR STATED THAT THE MINISTRY HAD UNCOVERED RECORDS
WHICH INDICATE THAT THE DEBT WAS LATER CONVERTED INTO A
BOND DURING THE EARLY 1930'S AND THUS MIGHT BE AN APPRO-
PRIATE MATTER FOR DISCUSSION WITH BONDHOLDERS PROTECTIVE
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COUNCIL. HE ASKED IF IT THEREFORE WOULD BE POSSIBLE TO

SETTLE THIS DEBT WITH THE PROTECTIVE COUNCIL WITHIN THE PURVIEW OF THE UPCOMING BONDS AGREEMENT RATHER THAN IN DIRECT NEGOTIATIONS WITH THE DEFT.

3. AKAR'S REASONS FOR WISHING TO DISCUSS THIS MATTER WITH THE BONDHOLDERS PROTECTIVE COUNCIL RATHER THAN DIRECTLY WITH THE USG STEM PRIMARILY FROM HUNGARIAN DOMESTIC CONSIDERATIONS. AKAR TOLD US THAT IN VIEW OF THE FACT THAT COUNCIL OF MINISTERS HAS ALREADY APPROPRIATED FUNDS FOR PAYMENT OF U.S. GOVERNMENT CLAIM FOLLOWING CLAIMS AGREEMENT, IT WOULD BE MOST UNCOMFORTABLE FOR NATIONAL BANK/(MNB) AND HIS MINISTRY TO HAVE TO SEEK HIGHER LEVEL APPROVAL FOR ADDITIONAL FUNDS TO SETTLE PRE-WW II COMMODITY DEBT WHICH, IN FACT, SHOULD HAVE BEEN RESOLVED DURING NEGOTIATIONS ON CLAIMS AGREEMENT. IT WOULD BE FAR MORE DESIRABLE FROM NATIONAL BANK'S AND AKAR'S POINT OF VIEW TO SOMEHOW INCLUDE A POSSIBLE SETTLEMENT OF THIS DEBT WITHIN FRAMEWORK OF AGREEMENT WITH BONDHOLDERS.

4. REASON EXPRESSED BY AKAR FOR DESIRING TO NEGOTIATE SETTLEMENT COMMODITY DEBT QUESTION WITH PROTECTIVE COUNCIL RATHER THAN DEPT STRIKES US AS LEGITIMATE ONE. HE WAS OBVIOUSLY COORDINATED HIS APPROACH TO US WITH HUNGARIAN NATIONAL BANK. NATIONAL BANK OFFICIALS HAVE TOLD US ON NUMBER OF OCCASIONS THAT THEY WOULD NOT REQUEST ADDITIONAL BUDGETARY APPROPRIATIONS FOR PAYMENT OF ANY DEBTS TO U.S. GOVERNMENT SINCE THEY ASSURED GOH FOLLOWING CONCLUSION OF CLAIMS AGREEMENT THAT ALL GOVERNMENT TO GOVERNMENT DEBTS WITH U.S. SETTLED. THEY WOULD NOT LEAVE THEMSELVES OPEN TO ATTACK AND CRITICISM BY SUBSEQUENTLY ASKING FOR SUPPLEMENTARY APPROPRIATIONS TO PAY OFF STILL ANOTHER U.S. GOVERNMENT CLAIM.

5. IF IT WOULD BE LEGALLY POSSIBLE AND AGREEABLE TO THE FOREIGN BONDHOLDERS PROTECTIVE COUNCIL TO NEGOTIATE ON SETTLEMENT OF THE COMMODITY DEBT WITHIN THE PURVIEW OF THE BONDS SETTLEMENT RATHER THAN IN A DIRECT USG-GOH ACCORD, BELIEVE THIS COULD OPEN WAY TO A SPEEDY RESOLUTION OF THIS ISSUE WHICH HAS BEEN NAGGING IRRITANT IN OUR RELATIONS SINCE SIGNING OF CLAIMS AGREEMENT.
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6 EMBASSY HAS LATELY RECEIVED DISTINCT IMPRESSION THAT NATIONAL BANK AND FINANCE MINISTRY WILL SEEK TO SETTLE ALL OUTSTANDING DEBTS AS SOON AS POSSIBLE WITH U.S. AND WOULD LIKE TO RESOLVE COMMODITY DEBT AS PART OF THIS PROCESS. IN ADDITION TO DISCUSSIONS WITH FOREIGN BONDHOLDERS, AKAR STATES THAT HE WILL SOON BEGIN TALKS WITH KREUTHALL REPRESENTATIVES WHO WILL BE COMING TO BUDAPEST

IN APRIL. FINALLY, FOLLOWING AMBASSADOR'S MENTION BLOCKED ACCOUNTS PROBLEM TO MNB PRESIDENT LASZLO DURING FAREWELL CALL, BANK LAST WEEK REQUESTED THAT WE FORWARD ALL RELEVANT INFORMATION TO THEM ON QUESTION OF BLOCKED ACCOUNTS. WHILE WE HAVE RECEIVED NO INDICATION AS YET AS TO WHETHER OR NOT THESE ACCOUNTS WILL BE UNBLOCKED IN NEAR FUTURE, IT APPEARS THAT CHANCES FOR MOVEMENT ON THIS ISSUE ARE MUCH BETTER THAN AT ANY TIME SINCE IT FIRST SURFACED.

7. EMBASSY WOULD VERY MUCH APPRECIATE RECEIVING DEPT'S COMMENTS AS TO FEASIBILITY OF THIS APPROACH SOONEST AS AKAR PLANNING TRAVEL TO U.S. DURING SECOND WEEK OF APRIL FOR FURTHER DISCUSSIONS WITH WOODS.

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